New Jersey Housing and Mortgage Finance Agency

Special Needs Housing Trust Fund

Guidelines & Financing Policy

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Special Needs Housing Trust Fund Guidelines approved by the HMFA Board on August 17, 2006.

1. Special Needs Housing Trust Fund Overview

The Special Needs Housing Trust Fund, "Trust Fund", pursuant to the Special Needs Housing Trust Fund Act, P.L. 2005, c. 163, provides capital financing to create permanent supportive housing and community residences for individuals with special needs, with priority given to individuals with mental illness. The purpose of this special non-lapsing, revolving fund, which is being administered by the New Jersey Housing and Mortgage Finance Agency ("HMFA"), is to develop special needs housing and residential opportunities as alternatives to institutionalization or homelessness for those who would benefit from these programs and to ensure the long-term viability of such housing. The monies in the Trust Fund will be used to enable persons with special needs to live with dignity and independence within communities of their choice by providing capital funding to increase the supply of affordable and quality housing with support services and other residential opportunities.

The Trust Fund provides capital financing in the form of loans, grants, and other financial vehicles and investments to eligible not-for-profit and for-profit developers, as well as government entities at the state, county, and municipal levels, for new housing units ***Funding for rent and operating subsidies and supportive services is not available through the Trust Fund.***

Special needs housing project sponsors proposing to apply for Low Income Housing Tax Credits, Tax Exempt financing under the Internal Revenue Code, or other HMFA financing must refer to the applicable program guidelines, which will take precedence.

Inquiries and requests for applications regarding the Special Needs Housing Trust Fund may be made to:

New Jersey Housing and Mortgage Finance Agency
637 South Clinton Avenue
P.O. Box 18550
Trenton, New Jersey, 08650-2085
Attention: Director, Supported Housing and Special Needs
Phone: 609-278-7603

2. Definitions

2.1 "Agency" means the New Jersey Housing and Mortgage Finance Agency, the ("HMFA"), created pursuant to P.L.1983, c.530 (C.55:14K-1 et seq.).

2.2 "Arm's length transaction" means a transaction negotiated by unrelated parties, each acting in their own self interest in arriving at a basis for a fair market value determination.

2.3 "Complete application" means an application submitted to the HMFA, including the application fee, completed application forms and certifications, and meeting all eligibility requirements.

2.4 “Complete living unit” is defined as follows for Tax-Exempt Financing: Section 142(d) of the IRS code and the applicable regulations there under defines a complete unit as any accommodation containing separate and complete facilities for living, sleeping, eating, cooking and sanitation, which may be served by centrally located equipment such as air conditioning or heating. The Regulations provide as an example of a “unit” an apartment containing a living area, a sleeping area, bath and sanitation facilities, and cooking facilities equipped with a cooking range, refrigerator and sink, all separate and apart from other apartments.

2.5 The “State Consolidated Plan” means a plan prescribed by the U.S. Department of Housing and Urban Development (HUD) that establishes a unified vision for community development actions and includes a comprehensive housing affordability strategy (CHAS) that sets forth the state’s policy for allocating investment among housing needs activities. It includes a statement of specific long-term and short-term community development objectives and priority non-housing community development needs for applications for funding under HUD Community Planning and Development formula grant programs (CDBG, HOME, ESG, and HOPWA), as well as a strategy for tracking and measuring results.

2.6 “Continuum of Care Plan” means a community plan prescribed by HUD to organize and deliver housing and services to meet the specific needs of people who are homeless as they move to stable housing and maximum self-sufficiency and includes action steps to end homelessness and prevent a return to homelessness.

2.7 "Cost of special needs housing project" means any and all expenses reasonably incurred by a project sponsor in connection with the acquisition, construction, improvement, or rehabilitation of property which is or shall be used for a special needs housing project, including, but not limited to, the costs and expenses of engineering, inspection, planning, legal, financial, or other professional services; the funding of appropriate reserves to address the anticipated future capital needs of a special needs housing project; and the administrative, organizational, or other expenses incident to the financing, completing, and placing into service of any special needs housing project authorized by P.L.2005 c.163.

2.8 “Individuals with special needs" means individuals with mental illness, individuals with physical or developmental disabilities and individuals in other emerging special needs groups identified by State agencies. HMFA acknowledged special needs populations also include victims of domestic violence; ex-offenders and youth offenders; youth aging out of foster care, runaway and homeless youth; individuals and families who are homeless; and individuals with AIDS/HIV.

a) "Individuals with mental illness" means individuals with a psychiatric disability or individuals with a mental illness eligible for housing or services funded by the Division of Mental Health Services in the Department of Human Services;

b) “Individuals with developmental disability” means an individual with a severe, chronic disability, which is attributable to a mental or physical impairment or combination of mental or physical impairments; is manifested before the person attains age 22 and is likely to continue indefinitely. The disability results in substantial functional limitations in three or more of the following areas of major life activity: self-care; receptive and expressive languages; learning; mobility; self-direction; capacity for independent living; and economic sufficiency; and reflects the person's need for a combination and sequence of special, interdisciplinary, or generic care, treatment or other services that are of lifelong or extended duration and are individually planned and coordinated.

c) "Homeless individuals or families" means any individual or family that does not have stable housing. Individuals coming out of a State psychiatric hospital, a transitional living program, half-way house, jail or correctional facility, with no place to live may be considered homeless.

2.9 "Residential Rental Property" as defined as follows for Tax-Exempt financing: Section 142(d) of the IRS code and the applicable regulations there under defines a residential rental project as a building or structure, together with any functional related and subordinate facilities, containing one or more similarly constructed units which (i) are to be used on other than a transient basis, (ii) are available to the general public and (iii) satisfy the continuous rental and low or moderate income occupancy requirements. Hotels, motels, dormitories, fraternity and sorority houses, rooming houses, hospitals, nursing homes, retirement homes, sanitariums, rest homes, and trailer parks are not residential rental projects. A residential project should also be composed of qualifying units, together with facilities functionally related and subordinate thereto. Buildings and structures which have similar constructed units are treated as part of the same residential rental project if they are in proximity to one another (located on a parcel or parcels of land which are contiguous except for the interposition of a road, street, stream or similar property), are owned by the same person for Federal tax purposes, and are financed pursuant to a common plan (i.e., by bonds issued under the same indenture).

2.10 "Project sponsor" means any person, partnership, corporation, limited liability company, association, whether organized as for profit or not for profit, or any governmental entity including municipal, county and State entities, to which the agency has made or proposes to make a loan or a grant, or otherwise to provide assistance, to finance a special needs housing project;

2.11 "Social service plan" referred to as the "plan" as described in Section 5.9, means a plan submitted by the project sponsor for a special needs housing project targeted population(s) which includes an identified social service provider, an executed agreement between a housing and social service provider or otherwise demonstrates to the satisfaction of the HMFA that the social services shall be provided for at least the term of the mortgage or grant compliance period to improve the quality of life of the tenants/residents of the project. The social service plan describes the scope and means of social and supportive services delivery.

2.12 "Special needs housing project", referred to as the "project", means a housing development, or such portion of a housing development, that is permanent supportive housing or a community residence that is primarily for occupancy by individuals with special needs who shall occupy such housing as their usual and permanent residence, together with any structures or facilities, appurtenant or ancillary thereto, and shall include the planning, development, acquisition, construction and rehabilitation of structures and residences undertaken by a project sponsor for such purposes, including the cost of land and structures, construction, rehabilitation or any interest therein;

a) "Permanent supportive housing" means a range of permanent housing options such as apartments, condominiums, townhouses, single and multi-family homes, single room occupancy housing, shared living and supportive living arrangements that provide access to on-site or off-site supportive services for individuals and families who can benefit from housing with services. Permanent supportive housing has as its primary purpose assisting the individual or family to live independently in the community and meet the obligations of tenancy. Tenants may have individual or shared apartments and there is no limitation for length of tenancy. Participation in services is not a condition of tenancy.

b) “Community residences" means group homes, supervised apartments, and other types of shared living environments that provide housing and treatment or specialized services needed to assist individuals with special needs to live in community settings. For purposes of the Special Needs Housing Trust Fund, community residences do not include assisted living facilities, nursing homes, transitional housing facilities or shelters.

c) A special needs housing project may contain “units” and/or “beds”. A unit refers to a single living unit that contains at a minimum a bedroom with a bathroom. A “unit’ may contain one or more “beds”. A “bed” is for a single individual receiving housing and services. Each unrelated adult must have their own bedroom.

3. Special Needs Housing Trust Fund Policy Priorities

The Trust Fund represents a limited resource with a large mandate. To ensure that Trust Fund proceeds are expended in the most efficient manner that most positively impacts the intended beneficiaries, the HMFA has established the following list of policy priorities. Projects not meeting an appropriate number or combination of the following priorities may be rejected by the HMFA or remitted back to the sponsor for modification. The policy priorities are as follows:

A. Providing permanent supportive housing and residential opportunities for persons with mental illness. The priority for serving persons with mental illness is stated in the Special Needs Housing Trust Fund Act, P.L. 2005 c. 163.

B. Leverage Trust Fund capital financing. Priority will be given to projects that require less than 50% of the total development cost to come from the Trust Fund. Projects sponsors shall not anticipate the Trust Fund paying for more than 80% of total development costs. Leveraged funds may come from local, county, state, federal, and private sources.

C. Address the needs of very low-income people with special needs. The goal of the HMFA is to use at least 75 percent of Trust Fund proceeds for the benefit of persons with special needs whose gross incomes, at the time of occupancy, do not exceed 30 percent of the area median income. It is not the intent of the HMFA to finance projects where the gross income of the population exceeds 80% of the area median income.

D. Meet locally determined priorities described in the Continuum of Care Plan. Wherever a Continuum of Care Plan exists, the project shall specifically show how it responds to the plan.

E. Meet State of New Jersey determined priorities for underserved populations in the State Consolidated Plan. The project shall specifically show how it responds to the State Plan.

F. Maximize long-term affordability. Projects shall demonstrate a financial and legal structure that ensures affordability for the intended population for at least thirty (30) years. Additional years of affordability are desirable.

G. Minimize temporary or permanent displacement. Projects shall not displace one population with the proposed special needs population whereby causing zero net gain in affordable housing units.

H. Demonstrate good and appropriate project location, siting and design. The following items will ensure that the project is accepted by the community, has reduced operating and maintenance costs, and provides for a healthier environment for residents:
1) Locate projects near jobs, transportation, and community resources and services.
2) Design the site and the building to be an appropriate and positive community asset.
3) Design for passive solar gain, summer shading, and natural ventilation.
4) Optimize the energy efficiency of the building, and utilize energy generation where feasible.
5) Use materials and finishes that require less maintenance.
6) Use ceramic tile, wood, cork or other environmentally friendly alternatives to carpet.
7) Maintain healthy indoor air quality by minimizing products and materials that release toxins, instead use: low VOC paints, adhesives, sealers and finishes; non-vinyl based materials; formaldehyde free laminates and insulation products; automatic ventilation to each unit and common areas.
8) Incorporate high-quality building science and moisture management practices.
9) Landscape with native plants and drip irrigation; use water catchments.
10) Incorporate universal design and visitability features.
11) Maximize the adaptive reuse of existing buildings and the use of existing infrastructure.

All developers/sponsors applying for construction and rehabilitation financing must complete the Special Needs Housing Trust Fund Design Checklist. Please refer also to the Special Needs Housing Trust Fund Design Reference Guide. Both documents are available on the HMFA web site: http://www.state.nj.us/dca/hmfa/.

I. Contain development costs. Projects shall strive to keep the special needs housing project cost per unit as low as possible while not compromising the quality and sustainability of the proposed housing.

4. Underwriting Guidelines and Financing Policy

Special Needs Housing Trust Fund
(Construction and/or Permanent)

Please Take Notice

These underwriting guidelines, policies, procedures, and forms may be amended from time to time due to changes in market conditions and/or changes in the HMFA's housing policies or initiatives. Such amendments may occur without notice and are applicable to all pending and future applications. Applicants are, therefore, responsible for contacting the HMFA to ascertain whether or not there have been any changes since the date of these guideline and for complying with such changes. The Trust Fund will not be used to finance more than 80% of the total development cost of any single project, regardless of the combination of funding sources.

The HMFA shall approve Special Needs Housing Trust Fund loans in the form of amortizing loans and/or cash flow loans and grants as deemed financially feasible by the HMFA. The HMFA will base its determination of the financial feasibility of the proposed special needs housing project based on whether the rental housing or community residence will have cash flow to support the amortizing loan. In making this determination the Agency will require a detailed operating budget reflecting revenues and standard housing expenses. Sponsors are also expected to have a separate budget for social services pursuant to the Social Service Plan described in Section 5.9. Any loan made for eligible program purposes is subject to deed restrictions as determined by the HMFA.

5.1 Eligibility Requirements

Eligible Sponsors/Borrowers

Qualified housing sponsors are defined as qualified for-profit and non-profit housing sponsors, preferably with experience in providing housing; or, associations of persons organized under the New Jersey Statutes; or any corporation having for one of its purposes the improvement of realistic opportunities for low- and moderate-income housing by virtue of past activities, qualifications of staff or board, or other features, to develop and operate housing projects.

Eligible Projects

Must be special needs housing projects as defined under Definitions, Section 2.12. The developer/sponsor must identify the eligible target population, the supportive service provider and submit a Social Service Plan described in Section 5.9.

Projects requesting Tax-Exempt financing must meet the definitions of a "residential rental property" (2.9) and "complete living units" (2.4) as defined in Section 2.

Eligible Uses Eligible uses include financing for the acquisition of land and/or building(s), rehabilitation of existing building (s) or new construction, conversion of building(s) as rental apartments/units and community residences for an identified target population(s). HMFA may make acquisition bridge loans, construction and permanent loans, and/or cash flow loans, and/or grants to qualified project sponsors for the costs of special needs housing projects. All required approvals, licenses, or permits for a proposed special needs housing project must be obtained and maintained by the project sponsor.

Eligible Tenants/Residents Individuals with mental illness, individuals with physical or developmental disabilities and individuals in other emerging special need groups identified by State agencies. (See definition for "individuals with special needs" 2.8.) Written documentation from either a Commissioner of a State Department or the Executive Director of a State Agency identifying a special need group or an emerging special need group is acceptable. Units financed by the Trust Fund may not be age-restricted to individuals age 55 and older.

5.2 Amortizing Loans

Amortizing Loans Financing will be structured in the form of an amortizing loan upon determination by the HMFA that a special needs housing project is expected to generate sufficient net operating income (NOI) to support an amortizing loan. Sources of income, including the project target population's income status and rental subsidy sources will be considered in determining the form of an amortized loan.

Debt Service Coverage Ratio The debt service coverage ratio is the relative cash flow available to meet the annual interest and principal. A project's cash flow analysis must achieve and maintain a projected minimum debt service coverage ratio 1:15 for the initial 15 years of the loan.

Risk Analysis Projects may be subject to additional credit enhancement obligations based upon the HMFA's assessment of the associated risk involved in providing a mortgage.

Repayment Terms The maximum mortgage loan term will be established at the underwriting stage. An amortized loan is a loan which the principal as well as the interest is payable in monthly installments over the term of the loan. An amortization schedule will be provided that shows the periodic payment, interest and principal requirements, and an unpaid loan balance for each period of the life of the loan.

5.3 Cash Flow Loans

Cash Flow Loans

Cash flow loans may be available to special needs housing projects that cannot support an amortizing loan. Repayment of a cash flow loan is from cash flow remaining after the payment of operating expenses and the funding of all escrows, as required by the HMFA, but prior to the distribution of Return on Equity if applicable. To the extent that interest and principal are not covered by cash flow payments, the payment of principal and interest will be deferred until the end of the cash flow mortgage loan term.

If after review of an annual audit report submitted by the Borrower to the Agency, the Agency determines that the balance of the Mortgage Note cannot be repaid on the maturity date and provided all conditions of the original Loan Documents have been satisfied and maintained, the Agency may extend the term of the Mortgage Note or consent to a refinance of the Mortgage Loan in accordance with Agency policies and procedures. Extension or refinance of a Mortgage will require that all terms and conditions of the existing Mortgage Loan Documents continue through any new mortgage term.

Repayment Term

The payment will be in an amount equal to twenty-five (25) percent of the project's available cash flow after the payment of operating expenses and the funding of all escrows, as required by the HMFA, but prior to the distribution of Return on Equity if applicable. To the extent that interest and principal are not covered by cash flow payments, the payment of principal and interest will be deferred until the end of the cash flow mortgage loan term.

5.4 Amortizing and Cash Flow Loans

Interest Rate:

The Trust Fund will make construction and permanent loans. The loan interest rates will be determined based on the financial feasibility and long-term affordability of the project as determined by the HMFA. The mortgage interest rate is a fixed rate for the term of the mortgage.

Maximum Loan Amount

The maximum Trust Fund loan amount, for both the combined amortizing and cash flow loans shall not exceed the lesser of 80% of the total project costs or the actual appraised value at stabilization. The Trust Fund will not be used to finance more than 80% of the total development cost of any single project, regardless of the combination of funding sources. Priority will be given to projects that require less than 50% of the total development cost to come from the Trust Fund. Sponsors may be required to demonstrate that other subsidies have been maximized including but not limited to Federal Home Loan Bank, regional contribution agreements and development fees, City and County Home funds, and HUD programs. The total maximum loan amount for any single project may not exceed four million dollars ($ 4,000,000). The Agency reserves the right to determine reasonable costs and to set a maximum allowable loan for a project.

The Trust Fund cannot be used to fund non-special needs units. For mixed occupancy projects that have more than 25 total units and have less than 50% special needs units, the maximum loan amount for the special needs units will be determined by Agency staff, but will not exceed $100,000 per unit.

Determination of Project Cost

Subject to the maximum loan amounts set forth above, the HMFA may finance project costs as determined by the HMFA and as defined in N.J.S.A. 5514K-3q. The HMFA must determine that all costs are reasonable and necessary. The HMFA will require the developer/sponsor to submit annual audit of project costs or a compilation report.

Term

Standard term is 30 years. The developer/sponsor may request a term of less than 30 years or may request a term of more than 30 years.

Lien Status

All loans will be secured by a first mortgage lien on the land and improvements if the borrower owns both in fee simple. If the borrower occupies the property pursuant to a ground lease, the HMFA will require a first leasehold mortgage secured by the borrower's interest in the lease and the improvements. The term of the ground lease must at a minimum be for the term of the HMFA's first mortgage and affordability restrictions and will be in all respects satisfactory to the HMFA. To further protect the Agency's interests, the parties shall enter into a non-disturbance agreement with the HMFA wherein the lessor will promise, among other things, not to terminate the ground lease during the term of the Agency's mortgage(s) and affordability restrictions except by reason of default of the borrower, and in no event without first giving the Agency notice and opportunity to cure that default, and, if required by the HMFA and/or the Attorney General's Office, amending the ground lease when curing a default by the borrower. The form and substance of the non-disturbance agreement must be acceptable to the HMFA and the Attorney General's Office.

Whenever a first lien position is determined not to be available, e.g. federal regulations, the HMFA will allow it's maximum loan amount to be in a lesser position.

If the borrower occupies the property pursuant to a ground lease, the HMFA will require a leasehold mortgage secured by the borrower's interest in the lease and the improvements. The term of the ground lease must at a minimum be for the term of the Agency's mortgage, and affordability restrictions and be in all respects satisfactory to the HMFA.

Security/Collateral

HMFA loans are secured or collateralized by a lien on the land, improvements, project revenues and escrows. There is generally no recourse to other assets of the borrower except in the case of fraud or other acts with regard to the project.

Commitment Term

Construction and permanent loan commitments will expire 90 days after the HMFA Board commitment date. In the case of permanent only loans, the commitment will expire 90 days after the anticipated construction completion date. The Executive Director is authorized to extend the commitment for two additional consecutive 90-day periods, if deemed appropriate in his or her sole discretion. A written request for extensions must be made.

Determination of Project Cost

The HMFA is required to determine that all special needs housing project costs are reasonable or necessary with regard to the maximum loan amounts. The HMFA will require the developer sponsor to submit an audit of projects costs at the end of construction.

Return on Investment for For-Profit Sponsors

The HMFA limits the return on investment that the owners receive annually and upon sale of a project, pursuant to N.J.A.C. 5:80-3. The base amount of the investment will be determined after the project costs are audited and thereafter periodically adjusted. The return on the base amount of the investment will be determined by, the percentage of low (50% of median and below), moderate (50% to 80% of median) and market rate units in the project. The following rates of return shall apply. The base rate is the 30-year Treasury bond rate at the time of the mortgage closing.
Base rate + 6% for percentage of low-income units
Base rate + 4% for percentage of moderate-income units
Base rate + 2% for percentage of market rate units

Sale or Prepayment

The HMFA prohibits the sale of the project or any interest therein without prior HMFA approval. Any sale or prepayment not authorized by the HMFA will result in a default of the mortgage loan. If the project's mortgage term exceeds 20 years, it may be prepaid after year 20; however, the low-income housing, Special Needs Housing Trust Fund and other HMFA restrictions remain in place through the original mortgage term.

5.5 Grants

Grants

The HMFA may provide Trust Fund funds in the form of a grant if: a) the applicant provides documentation confirming to the satisfaction of the HMFA that another source requires the HMFA's funding to be provided in the form of a grant; or b) the HMFA source of funds require that it be a grant.

Grant Compliance Term

The compliance term of Trust Fund grants is thirty (30) years from the date of the grant award; however, the HMFA may adjust the grant term based on the requirements and conditions of other funding sources. The grant shall be forgiven in full at the end of the 30-year term if the grant recipient complies with the grant agreement throughout the grant term.

Grant Recapture

Trust Fund grants must be repaid in full to the HMFA if the grant recipient does not comply with the conditions of its grant agreement with the agency for the full term of the grant.

5.6 Underwriting Analysis

Site Acceptance

The HMFA will visit the site to determine that the site is suitable for the development's purpose, including the needs of the target population. Please refer to the Special Needs Housing Trust Fund Application Design Checklist. If the project is going to be licensed by the Department of Human Services or Department of Children and Families, a representative from the appropriate Department will be requested to participate in the site review process.

Real Estate Valuation

The HMFA recognizes the lesser of the appraised value or the purchase price of the realty and any buildings and improvements thereon, in the most recent arm's length transaction as provided by a "Delineation of Title" history (completed by the appraiser) identifying each party associated with the conveyance for a maximum of 10 years. The appraised value of the real estate may be considered if the arms length transaction exceeds 10 years.

The total purchase price may include documented carrying costs, expenditures to obtain zoning, environmental or other governmental approvals necessary or useful for the development of the project, and the costs of improvements erected for the benefit of the project. The difference between the actual purchase price and the appraised value, if the purchase price is higher, may be recognized for the purpose of Return on Investment.

Please Note: Arm's Length Transaction is defined as a transaction negotiated by unrelated parties, each acting in their own self-interest in arriving at a basis for a fair market value determination.

Appraisals

An independent appraisal that conforms to the Uniform Standards of Professional Appraisal Practice (USPAP) and in accordance with the HMFA standards, will be commissioned by the HMFA to determine project valuation for both the site and building. Where applicable, the value of the federal low income housing tax credits must be provided. Regardless of whether or not the project has received tax abatement, the appraisal will also provide the most recent tax assessment on the property. Depending upon the type of housing and the number of units, the HMFA will determine the type and scope of the appraisal that will be commissioned. *****For HUD 811 Supportive Housing projects, HMFA will accept the HUD approved appraisal.

PLEASE NOTE: While the cost of the appraisal is borne by the developer/sponsor, the HMFA will order the appraisal. The process is as follows:

- The appraiser is selected from a computer database that keeps a rotating list of appraisers that have been pre-approved to do business with the HMFA. The appraiser at the top of the list is selected based on the type, size and location of the project to be appraised.
- If for some reason, the appraiser cannot do the requested appraisal, the computer will provide three alternates and the HMFA will request a bid from those three appraisers to do the required work.
- Once a price has been given and accepted by the HMFA, the developer/sponsor is notified of the cost. At that time, the developer/sponsor is required to send a check for that amount to the HMFA. <u>No</u> appraiser will be authorized to begin work until the HMFA has received the check.
- The developer/sponsor is responsible for providing all information to the Credit Officer that is needed for the appraiser to complete the assignment. <u>In turn, the Credit Officer will provide that information to the appraiser.</u>

- The developer/sponsor is to have no contact with the appraiser and the appraiser is to have no contact with the developer/sponsor until the appraisal has been completed, reviewed by staff and approved.
- Once the appraisal has been approved by the HMFA, the developer/sponsor will be supplied with a copy of the appraisal.

(See Appraisal Standards. For a copy contact the Multifamily Programs and Credit Division at 609-278-7519.)

Demand Analysis

A demand analysis may be required to determine the overall vacancy rates, absorption periods, penetration rates, rental comparable, marketing plan, housing need, income projections and budget for a special needs target population.

Marketing Plan

For all projects receiving a Trust Fund commitment, depending on the size and scope of the project, the sponsor and/or the managing agent may be required to provide a marketing plan for the HMFA's approval and acceptance. This plan must outline all the preliminary marketing to be accomplished prior to opening and thereafter. The plan must also provide for the on-going marketing efforts that will be made to keep the project fully occupied. The outline must provide a time line for all anticipated activities and should be tied to benchmarks during construction.

Where the HMFA is making both the construction and permanent loan, the plan (if required)shall be submitted prior to closing on the construction loan. Where the HMFA is providing only the take-out financing, if required, the project shall submit its marketing plan (if required) prior to construction start. In certain cases of rehabilitation where there is an existing occupancy, the sponsor and/or the managing agent must submit documentation that a full marketing plan is not needed and give the reasons the HMFA should accept a lesser marketing analysis.

Building Design

The external and internal design of the building is important to meeting the goals of the Trust Fund as indicated in Section 3.H of these Guidelines. The project developer/sponsor is encouraged to review the Special Needs Housing Trust Fund Application Design Checklist and Reference Guide early in the development of the project concept and preliminary design. The Application Checklist must be completed prior to HMFA review of final site plans and evidence of design features for special needs units referenced in the Application Checklist submission must be documented on the Plans. HMFA Technical Services staff will review building plans, consistency with the Application Checklist, and is available to assist with meeting these priorities. Failure to meet these priorities may result in a project not receiving financing.

The HMFA discourages the use of EIFS (Exterior Insulation Finish Systems such as DRYVIT) and electric heating systems. If the use of either of these systems is contemplated, it must be disclosed at the application stage and written authorization received from the HMFA before engaging professionals to produce Design Development drawings.

All projects shall demonstrate successful participation in the Environmental Protection Agency's (EPA) Energy Star Homes Program or equivalent (e.g. New Jersey's Energy Star Homes Program). Owners shall submit to the HMFA the Energy Star Homes Certificate issued for each building in the project. All appliances must be Energy Star rated.

Green and sustainability design is strongly encouraged (please refer to the Special Needs Housing Trust Fund Design Reference Guide available on the HMFA web site: http://www.state.nj.us/dca/hmfa/). For further information or assistance in designing a green building and participating in a subsidized green building program, please contact the Division of Policy and Planning at 609-278-7414.

For **substantial (gut) rehabilitation projects**, a structural engineering report on the existing structure, acceptable to the HMFA, must be submitted. All existing mechanical, plumbing and electric systems must be replaced.

If the degree of rehabilitation to be accomplished is **less than substantial**, an engineer's report describing the condition of these building systems, and listing their recommendations, may be required.

Construction Budget

The construction budget must be supported by a Summary Trade Payment Breakdown signed by the contractor. This document and other supporting schedules such as the construction completion schedule and design development drawings must be submitted by the contractor and approved by the Director of Technical Services prior to mortgage commitment. Refer to the Technical Services Requirements document attached to the Document Checklist, for the timing of the submission of these documents. Construction Trade Payment Breakdown for U.S. Department of Housing and Urban Development 811 Supportive Housing Projects are acceptable.

Wage Rates

Depending on construction financing requirements of funding sources the developer/sponsor **may be required** to pay prevailing wages as determined by the N.J. Department of Labor except that prevailing wages determined by the U.S. Department of Labor under the Davis Bacon Act shall be used if an HMFA construction loan is subject to direct or indirect federal assistance. It is the responsibility of the developer/sponsor to determine the applicability of prevailing wages or the Davis Bacon Act.

Tax Abatement

The developer/sponsor is encouraged to obtain a municipal resolution granting a real estate tax abatement and authorizing an agreement for payments in lieu of taxes ("P.I.L.O.T.") for the project under HMFA's statute, N.J.S.A. 55:14K-37, during the mortgage or grant term. Furthermore, it is beneficial to the project if a tax abatement is obtained pursuant to HMFA statute rather than the Long Term Tax Exemption Statute.

In general, the HMFA has found that a project without a tax abatement or a project with a tax abatement under the Long Term Tax Exemption statute may have trouble demonstrating financial feasibility. (Contact the HMFA for the Tax Abatement Form)

Sales Tax Exemption

Sales of materials or supplies to project sponsors utilizing HMFA construction financing are exempt from NJ State sales tax. Sales of materials or supplies to contractors for the purpose of erecting housing projects that have received the HMFA construction financing and other local, State or federal subsidies are exempt from NJ State sales tax. (Contact the HMFA for the Sales Tax Exemption Form.)

Environmental Review

A Preliminary Assessment Report (Phase 1) as described in N.J.A.C. 7:26E-3.2 is required for the project site. Additional assessments, such as a Site Investigation described in N.J.A.C. 7:26E-3.3 et seq., or Department of Environmental (DEP) remediation measures may also be warranted. Rehabilitation projects must provide a plan for asbestos removal and remediation of lead-based paint, radon, and underground storage tanks. A letter of "no further action" from DEP may be required.

A transaction update from the consultant, indicating that no further pollutants have been introduced to the site, will be required on all assessments or investigations prepared more than six months prior to construction start.

Professional Liability Insurance*

Required for the Contractor and the architect and any other professional(s) as reasonably determined by HMFA for any project whose construction costs exceeds $100,000. The contractor must have general liability insurance, workmen's compensation; and contractor's public liability and property insurance. The architect(s) must have Errors & Omission Insurance. Projects with development costs under $100,000 may be asked to provide any of the above professional liability insurance coverages at the discretion of the HMFA.

*All insurance must be issued by a firm with an A.M. Best Rating of B+ or better.

Insurance Requirements All projects must have insurance policies providing Property/Crime/Liability and Equipment coverage approved by the HMFA. The HMFA as lender must be named as mortgagee additional insured/loss payee on the project insurance policy and must be notified in the event of non-payment and/or lapsing coverage. This must be included in insurance documents provided for project closing.

General Contractor in Lieu of Architect For those projects that require moderate rehabilitation as determined by the HMFA, the HMFA may consider a general contractor's services instead of engaging an architect, so long as municipal requirements such as building permits, write-ups and costs estimates will be obtained from the general contractor in these instances.

5.7 Construction Completion Guarantees

Construction and Permanent Financing* Projects with construction costs over $100,000 shall provide one of the following construction guarantees: 1) submit a 100% Payment and Performance Bond for a term from the HMFA loan closing date through 2 years from the date of issuance of the Certificate of Occupancy or Architect's Certification of Substantial Completion, whichever is the later; or 2) provide cash or a letter of credit equal to 10% of hard costs; or 3) a maintenance or warranty bond equal to 30% of construction costs; or 4) provide another form of guarantee which is acceptable to the HMFA. Projects with construction costs under $100,000 may be asked to provide one of the above construction guarantees at the discretion of the HMFA.

Permanent Financing* In the case of permanent only financing, the developer/sponsor must provide one of the following for a term of 2 years from the date of issuance of the Certificate of Occupancy or Architect's Certification of Substantial Completion, whichever is later: 1) 100% Payment & Performance Bond equal to the construction cost; 2) Letter of Credit equal to 10% of the construction cost; 3) Warranty Bond equal to

30% of construction cost; or 4) another form of guarantee which is acceptable to the HMFA. The cost of a payment and performance bond construction guarantee is an allowable project cost.

*All bonding companies must be rated with an A.M. Best Rating of B+ or better.

Construction Contingency The contingency may be used to cover increases in both hard and soft costs.

The budgeted contingency for new construction projects is 5% of the construction costs.

The contingency for rehabilitation projects is 10% of the construction costs. This may be adjusted based upon an acceptable engineering report submitted to the HMFA. The budgeted contingency for soft costs must be at a minimum of 1% of the budgeted expenses.

Developer's Fee The amount of the developer's fee allowed is limited to 15% of total development cost excluding land, working capital, marketing expenses, escrows, operating deficit reserves, step-in-the-shoes costs and costs associated with syndication as determined by HMFA. This fee may be increased to 20% of the allowable costs for projects that are located on scattered sites, are single-family or duplex style or are designated for a special needs population.

In addition, the non-deferred portion of the developer fee for all projects shall not exceed 8% of the aforementioned development cost. The deferred portion of the developer fee shall be achieved from cash flow by way of Return on Equity after payment of debt service, operating expenses and funding of all required escrows and reserves.

The developer fee does not include fees paid to the architect, engineer, lawyer, accountant, surveyor, appraiser, professional planner, historical consultant, and environmental consultant. Executed contracts for these professionals shall be submitted to the HMFA before being recognized as a separate line item expense. All other consultant fees shall be included in the developer fee.

Developers may pledge their fee toward meeting the equity requirement. The amount allowable will be determined at the sole discretion of the HMFA. **The developer's fee is earned on a pro-rata basis during the construction period based upon the percentage of construction completion. The unpledged portion of the developer's fee is payable only when earned and is earned only after the entire pledged portion has been earned.**

Special Needs Project Escrow Account – The Special Needs Project Escrow Account will comprise twelve (12) months of operating expenses; one year of taxes, insurance and debt service. The Special Needs Escrow Account is funded at the time of loan closing. The Account will be available to cover potential cash deficiencies during operations and will be established and maintained by HMFA and will remain in the project for the life of the mortgage. If there are funds remaining at the end of the mortgage term, these funds will revert to the Special Needs Housing Trust Fund. The Special Needs Escrow Account does not apply to HMFA Multifamily financing, Low Income Tax Credit or HUD 811 Supportive Housing Program projects.

Repair and Replacement Reserve

A Repair and Replacement Reserve Account will be established and maintained by HMFA at the time of construction and/or permanent loan closing. The Account will be established with $2,000 per unit or $1,000 per bed. In addition, the developer/sponsor will be required to make quarterly deposits to this account in accordance with the monthly reserves for repairs and replacement established at the time of HMFA financing commitment.

The HMFA Property Management Division will be conducting annual property site inspections in accordance with HMFA Property Management Policies and Procedures.

Note: The Special Needs Project Escrow and the Repair and Replacement Reserve under these guidelines will not apply to projects financed under the Agency's Division of Multifamily Guidelines and Financing Policy or other Agency program.

Operating Expenses

Sponsors are encouraged to use the following project minimums. Deviating from these minimums will require an explanation acceptable to the HMFA.

(A) Management Fee for Project
Management fee for projects budgeted within the average range of $40- $52 per unit per month or $20 - $25 per bed per month. Each year the range will be increased by the HMFA based on the current Consumer Price Index (CPI).

(B) Reserve for Repairs and Replacement
Three hundred dollars ($300) per unit per year or one hundred fifty dollars ($150) per bed per year. The owner is responsible for quarterly payment of Reserves for Repairs and Replacement to the HMFA.

(C) Insurance
Insurance must be budgeted at $600 per unit unless proof of the actual expense is provided.

(D) The Owner will pay taxes and insurance and provide documentation of such payment annually to HMFA Property Management.

Management Oversight

Sponsor submissions must adhere to the following HMFA Property Management criteria for both grants and loans:

- Submission of an Annual Budget;
- Annual submission of a project specific Annual Certified Audited Financial Statements or a compilation report prepared by a Certified Public Accountant;
- Consent to Annual Property Site Inspections by HMFA and/or an approved State Agency.
- Annual documentation from the owner of payment of taxes and insurance.

Sponsor submissions to the Division of Supported Housing and Special Needs:

- Annual tenant certifications for tenant income and target population eligibility (see HMFA Special Needs Trust Fund Tenant Verification Forms).
- HUD 811 Supportive Housing projects must submit all HUD inspection and audit reports.
- Projects licensed by the Department of Human Services and/or the Department of Children and Families must submit site review and inspection reports. It is the responsibility of the Owner to promptly report any deficiencies related to property inspections from State licensing entities.

Failure to adhere to these criteria may result in the project being deemed in violation of the HMFA's mortgage documents.

Vacancy Rate

The vacancy rate used for each project will be determined by the demand analysis and appraisal. At initial application, a minimum of a 5% vacancy rate may be used.

Escrow Requirements

The escrows listed below must be funded from the capital budget at the time of closing on the initial HMFA loan whether a construction and/or permanent loan, and must remain in place for the term of the mortgage:

*Insurance - one- year hazard insurance premium

*Taxes-	one-year of taxes - this may be on real property and/or a payment in lieu of taxes
Debt Service -	one-year principal and interest
Risk Share Premium -	one-year insurance premium plus one-quarter of the following year's premium (if applicable).
Repair & Replacement	two thousand dollars ($2,000) for each unit or one thousand dollars ($1,000) for each bed.
Other Credit Enhancements-	as per program requirements

* Additional escrows may be required at closing for the HMFA to make the next payment or renewal.

Acceptable Housing Quality Standard

At a minimum, units must meet the State Uniform Construction Code, local codes, certificate of occupancy requirements, as well as zoning requirements and may be subject to review and approval by HMFA's Technical Services Division.

5.8 Income Targeting

Very-low and Low Income

HMFA will underwrite very-low and low-income rents at 30% and 47.5% of area median income, respectively.

Rents

To the maximum extent economically feasible, the rents will be set at a level affordable to the targeted income and special needs group(s) to be served and will be determined by a demand analysis or experience and the need to serve very-low income households.

The restrictions on tenant income and on rents shall be enforced through a deed restriction on the project and land for the term of the HMFA's mortgage. Projects receiving tax credits shall also be subject to a deed restriction pursuant to the Internal Revenue Code.

Persons with special needs who require twenty-four (24) hour assistance may occupy the home/unit with appropriate caregivers. Parents and/or legal guardians of the resident's property may sign the rental lease agreement on behalf of the eligible resident applicant and may provide security deposits if necessary. The lease agreement shall be in a form acceptable to the appropriate State Agency having oversight of the special needs population. Initial rents as well as future rental increases should not create a rent burden for tenants.

Rents will be reviewed by HMFA and must be acceptable to HMFA and the appropriate State Agency.

5.9 Social Service Plan

Developers/sponsors proposing a special needs housing project must identify the target population and a service provider agency for the project. In addition the service provider must provide a Social Service Plan that addresses the needs of the target population and the plan components outlined below. The Social Service Plan must meet the guidelines listed below unless it has been developed and approved in accordance with criteria established by either the Department of Human Services or Department of Children and Families.

In the event that a project owner wishes to transfer to a new service provider, the owner must submit a request for transfer in writing, including the reasons for the request, to the Supported Housing and Special Needs Unit with a revised Social Service Plan. All transfers must be approved by HMFA.

Social Service Plans are subject to the HMFA's approval. If the service provider is receiving funding from a State Agency, the appropriate State Department, Division or Agency funding the services must approve the Social Service Plan, any requested transfer of service provider, or comparable requirements, to the satisfaction of the State funding entity and provide evidence of approval to HMFA.

Social service plan

The plan must describe the scope of services for the tenants/residents of the project, including how the supportive and/or treatment services will be funded, the staffing plan, and a plan for how the services will be delivered. The plan must address how the project will promote residential opportunities that are integrated into the neighborhood or the community. The plan must include, at a minimum, the following three services: 1) service coordination/ case management; 2) linkages to mainstream resources including entitlement programs; and 3) linkages to health care and treatment programs as needed. Services should be designed to assist individuals and families to maintain their housing and/or residential opportunity.

Tenant Selection

The plan must describe the population to be served and how the population will benefit from the project. The tenant selection policy must be described and referral sources identified. If the plan proposes to restrict occupancy to any group, an explanation of why it is necessary for the restriction(s) must be provided.

Service Needs Assessment

The plan must indicate how the housing and supportive service needs of the tenants will be assessed, including the relevant assessment tools, and how these needs will be addressed. The services provided must be appropriate to the needs of the target population.

Appropriate and needed services may be supported by evidence based practice, research and/or direct practice experience.

Capacity The plan must describe and demonstrate capability and experience of the social service provider in providing housing and/or supportive and social services to the target population or a relevant special needs population.

Performance Measures The plan must include performance measures and methodology for evaluation of tenant/resident housing and service outcomes being addressed, or the sponsor may agree to participate in the NJ Statewide Homeless Management Information System (HMIS) Collaborative.

Accessibility The plan shall include a description of the service provider's capacity and planned activities to address bi-lingual needs, cultural competency, and other special needs accommodations, including accessibility features for the tenants/residents of the project.

Consumer Choice The social service plan shall demonstrate how tenants will have the opportunity to participate in their individualized services plan, service goals and/or choice of services.

Executed Service Agreements If the special needs housing project sponsor is not providing the social services, the sponsor must provide evidence of executed service provider agreement(s) and evidence of committed funding sources or documentation of how and by whom the supportive and/or treatment services will be paid.

Service Fees For projects targeting people who are very-low or low income services included in the social service plan must be provided at no out-of-pocket cost to the tenants/residents. This does not restrict third-party reimbursement, such as Medicaid.

Community Residences Applicants proposing to create a residential program that will be a licensed treatment or group home(s) to serve a client population of the Department of Human Services (DHS) and/or the Department of Children and Families (DCF) must provide evidence that the project will be able to meet all appropriate DHS or DCF licensing requirements. Additionally, the applicant will be required to provide a letter of support from the appropriate DHS Division indicating that the project will have the necessary funding sources for building operations and the provision of services.

Other Housing Opportunities

Applicants proposing to create other housing or residential projects that will be licensed by the Department of Community Affairs or the Department of Health must provide evidence that the project will be in compliance with all appropriate licensing requirements.

5.10 Fees and Charges

Application Fee

Developer/sponsors will be responsible for payment of a non-refundable application fee of $500 due at the time of the initial application.

Re-Commitment Fee (non-refundable

A $500 Special Needs Housing Trust Fund re-commitment fee will be charged. This fee is due prior to the Board issuance of a re-commitment.

Pass Through Costs

The HMFA will order the appraisal, and market study if applicable, and if one has not been already ordered, as well as any updates that are needed. The costs for the aforementioned will be passed through to the developer/sponsor.

One-Time Financing Fee

A three (3%) percent up-front financing fee based on the total amount of HMFA financing, including grants will be payable at the time of project closing.

Processing and Review Fee

An additional processing and review fee of $2,000 will be charged at time of application, to any project sponsor, which seeks Agency financing to be secured by a leasehold mortgage.

Multifamily Financing

Please refer to the Multifamily Guidelines or the HMF Low Income Housing Tax Credit Qualified Allocation Plan regarding applicable fees and charges for projects applying for HMFA Multifamily Division financing and/or Low Income Tax Credits.

For Additional information regarding underwriting guidelines, please consult the Explanatory Notes for completing the HMFA Form 10 Proforma.

6. Application Process

Special needs housing project sponsors proposing to apply for Low Income Housing Tax Credits or other HMFA financing must refer to the applicable program guidelines, which will take precedence. Applicants applying for construction or rehabilitation financing must also complete the Special Needs Housing Trust Fund Application Checklist.

Availability of Funds

Trust Fund funding will be available through an open, rolling application process. It is recommended that potential applicants contact HMFA's Supported Housing and Special Needs Division to review the application process and the required documentation needed to facilitate the funding process. Capital funds in the form of grants, loans and cash flow loans are available from the Trust Fund. **Operating funds, funds for supportive services and other types of services are NOT available from the Trust Fund.**

Application Submission

One original application, including the application fee and the Special Needs Application Design Checklist should be submitted with 2 copies (page numbers/no binders) to the Director, Division of Supported Housing and Special Needs. The application will be reviewed within 15 business days of receipt. HMFA staff will notify the applicant as to completeness of the application. In the event there are deficiencies with the application and/or additional information is needed, HMFA staff will contact the sponsor. A completed application must be received by HMFA at least 60 days prior to an Agency Board meeting for consideration for a Trust Fund Declaration of Intent and/or commitment from the HMFA Board.

Pre-Application Meeting

The Division of Supported Housing and Special Needs may schedule an application pre-meeting to review the project concept, site proposal, funding strategies and/or design considerations. These meetings will include representatives from the State Government entities that may be considered for funding. Developers/sponsors are requested to submit at a minimum a concept paper, identified service provider, target population, draft proforma and project site description prior to scheduling an application pre-meeting.

Application Review

HMFA will review applications to the Trust Fund for the acquisition of land and/or building(s), rehabilitation and/or conversion of existing buildings, new construction, and bridge loans (for acquisition only). Staff will assess the housing related costs for long term project operations and the income stream necessary to support the proposed project and to maintain the project as affordable housing for the target population. HMFA staff will review the social service plan and project expenses related to support services and the scope of the social service plan. Applicants must clearly delineate costs and funding sources for housing/facility operations and for social and support services. HMFA staff will review the applicant's narrative response to the policy priorities.

Project Meeting

Once an application has been determined to be complete, HMFA staff will schedule a project meeting with the project sponsor, members of the Sponsor's development team, a representative from the appropriate DHS Division and other State Agencies that can assist with assessment of the social service plan and the target populations service needs, project financing and development. The Sponsor may be required to secure a letter of project support from the appropriate State Department if the proposed housing and/or residential opportunity will be a licensed program of the Departments of Human Services, Children and Families, Community Affairs or Health and Senior Services.

Declaration of Intent

A Declaration of Intent, stating the intention of the HMFA, may be needed prior to seeking a Special Needs Housing Trust Fund Agency financing commitment from the Board of the HMFA. Approval of the Declaration of Intent establishes for tax-exempt bond purposes the eligibility of costs associated with pre-bond sale and development work. By this action, the Board expresses its present intent to issue bonds for the project. The ability of the project to conform to the HMFA's Underwriting Guidelines and Financing Policy, as well as compliance with federal tax and other laws or pending laws, has not yet been determined. This action does not obligate the HMFA to take any further action in connection with this project, including any action to issue bonds or to provide first mortgage financing, gap financing or a tax credit allocation, nor is the Declaration of Intent intended to give the project any preference over any other project financing.

Additional information may be obtained from HMFA regarding the process and guidelines for a Declaration of Intent.